

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Reed City Housing Commission	County Osceola
Fiscal Year End 6/30/06	Opinion Date 12/12/06	Date Audit Report Submitted to State 2/7/2006	

We affirm that:

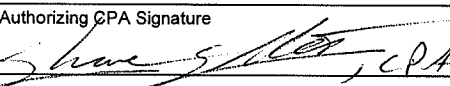
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	n/a	
Other (Describe)	<input checked="" type="checkbox"/>	n/a	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	Zip 49801
		License Number 263063	

REED CITY HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended June 30, 2006

REED CITY HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Reed City Housing Commission
Reed City, Michigan

We have audited the accompanying financial statements of the business-type activities of the Reed City Housing Commission, a component unit of the City of Reed City, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Reed City Housing Commission as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006 on our consideration of the Reed City Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Reed City Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*", and is also not a required part of the basic financial statements of Reed City Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 12, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Reed City Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 2006. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$2,252,238 at June 30, 2006 compared to \$2,338,373 at June 30, 2005.
- The Commission's operating revenues totaled \$723,604 for June 30, 2006 and \$680,317 for June 30, 2005, while operating expenses totaled \$901,310 for June 30, 2006 and \$832,564 for June 30, 2005.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at June 30, 2006 decreased \$(86,135) from June 30, 2005.

Table 1

NET ASSETS

	June 30	
	2006	2005
Assets		
Current assets	\$ 502,877	\$ 527,493
Capital assets (net)	<u>1,814,734</u>	<u>1,886,426</u>
Total assets	<u>2,317,611</u>	<u>2,413,919</u>
Liabilities		
Current liabilities	60,656	58,214
Noncurrent liabilities	<u>4,717</u>	<u>17,332</u>
Total liabilities	<u>65,373</u>	<u>75,546</u>
Net Assets		
Invested in capital assets, net of related debt	1,814,734	1,886,426
Unrestricted	<u>437,504</u>	<u>451,947</u>
Net Assets	<u>\$2,252,238</u>	<u>\$2,338,373</u>

Net assets of the Commission stood at \$2,252,238 at June 30, 2006 compared to \$2,338,373 at June 30, 2005. Unrestricted net business assets were \$437,504 compared to \$451,947 at June 30, 2005. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The decrease in current assets was due to the Commission using its reserves to purchase capital assets in excess of capital funds received. The decrease in noncurrent liabilities was due to a decrease in accrued compensated absences.

Table 2**CHANGE IN NET ASSETS**

	Year Ended June 30	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 258,632	\$ 248,646
Program grants and subsidies	524,845	496,595
General revenues:		
Other revenues	16,081	16,089
Unrestricted investment earnings	<u>15,617</u>	<u>11,234</u>
Total revenues	815,175	772,564
Program Expenses:		
Operating expenses	<u>901,310</u>	<u>832,564</u>
Change in net assets	(86,135)	(60,000)
Net assets - beginning of period	<u>2,338,373</u>	<u>2,398,373</u>
Net assets - end of period	<u>\$2,252,238</u>	<u>\$ 2,338,373</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$815,175 compared to \$772,564 during June 30, 2005. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in operating expenses is largely due to an increase in utility and maintenance expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$4,446,548 invested in a variety of capital assets including land, equipment and buildings at June 30, 2006 compared to \$4,359,069 at June 30, 2005.

Table 3

CAPITAL ASSETS Business - Type Activity

	June 30,	
	2006	2005
Land and improvements	\$ 44,618	\$ 44,618
Building and improvements	3,945,947	3,869,170
Equipment	427,890	306,052
Construction in progress	<u>28,093</u>	<u>139,229</u>
Total	4,446,548	4,359,069
Less accumulated depreciation	<u>(2,631,814)</u>	<u>(2,472,643)</u>
NET CAPITAL ASSETS	<u>\$1,814,734</u>	<u>\$1,886,426</u>

The Commission invested \$87,479 in capital assets during the year ended June 30, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2006/2007. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2006/2007 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Anjanette Shoemaker, at 802 South Mill Street, Reed City, Michigan 49677, or call 231-832-2762.

REED CITY HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

June 30, 2006

CURRENT ASSETS:

Cash and equivalents	\$ 217,468
Accounts receivable	4,865
Investments	268,320
Prepaid expenses	<u>12,224</u>

TOTAL CURRENT ASSETS	<u>502,877</u>
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NONCURRENT ASSETS:

Capital assets	4,446,548
Less accumulated depreciation	<u>(2,631,814)</u>

NET CAPITAL ASSETS	<u>1,814,734</u>
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TOTAL ASSETS	<u>2,317,611</u>
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CURRENT LIABILITIES:

Accounts payable	12,128
Accrued liabilities	<u>48,528</u>

TOTAL CURRENT LIABILITIES	60,656
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NONCURRENT LIABILITIES

	<u>4,717</u>
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TOTAL LIABILITIES	<u>65,373</u>
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NET ASSETS:

Investment in capital assets, net of related debt	1,814,734
Unrestricted net assets	<u>437,504</u>

NET ASSETS	<u><u>\$ 2,252,238</u></u>
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

REED CITY HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Public Housing	\$ 901,310	\$ 258,632	\$ 448,891	\$ 75,954
				\$ (117,833)
BUSINESS-TYPE ACTIVITIES:				
General revenues:				
Unrestricted investment earnings				15,617
Other				16,081
Total general revenues				31,698
Change in net assets				(86,135)
NET ASSETS, beginning of year				2,338,373
NET ASSETS, end of year				\$ 2,252,238

The accompanying notes to the financial statements are an integral part of this statement.

REED CITY HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended June 30, 2006

OPERATING REVENUES:

Tenant revenue	\$ 258,632
Program grants-subsidies	448,891
Other income	<u>16,081</u>

TOTAL OPERATING REVENUES	<u>723,604</u>
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OPERATING EXPENSES:

Administration	205,349
Utilities	123,569
Maintenance	156,942
Protective services	6,416
General	33,457
Housing assistance payments	216,405
Depreciation	<u>159,172</u>

TOTAL OPERATING EXPENSES	<u>901,310</u>
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OPERATING (LOSS)	<u>(177,706)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Capital grants	75,954
Interest income	<u>15,617</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>91,571</u>
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CHANGE IN NET ASSETS	(86,135)
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NET ASSETS, BEGINNING OF YEAR	<u>2,338,373</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 2,252,238</u></u>
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REED CITY HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 258,095
Cash received from grants and subsidies	448,488
Cash payments to suppliers for goods and services	(444,420)
Cash payments for wages and related benefits	(295,076)
Cash payments for payment in lieu of taxes	(12,399)
Other receipts	<u>16,081</u>

NET CASH (USED) BY OPERATING ACTIVITIES	<u>(29,231)</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	75,954
Acquisition of capital assets	<u>(87,479)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(11,525)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(71,682)
Investment income	<u>15,411</u>

NET CASH (USED) BY INVESTING ACTIVITIES	<u>(56,271)</u>
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NET (DECREASE) IN CASH AND EQUIVALENTS	(97,027)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>314,495</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 217,468</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (177,706)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	159,172
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(940)
Decrease (Increase) in prepaid expenses	417
Increase (Decrease) in accounts payable	4,577
Increase (Decrease) in accrued liabilities	<u>(14,751)</u>

NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (29,231)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.



REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Reed City Housing Commission (Commission) was formed by the City of Reed City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission manages 101 units of low rent public housing and 71 section 8 vouchers of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Reed City Housing Commission, but the Reed City Commission is a component unit of the City of Reed City, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.

REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenses and the means of financing them. Prior to June 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 180
Checking accounts	121,912
Money market	<u>95,376</u>
 TOTAL	 <u>\$217,468</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of June 30, 2006, the Commission held cash and equivalents in excess of FDIC insurance in the amount of \$135,687 which was fully collateralized by governmental securities having a fair market value of \$368,952 at June 30, 2006.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>
Certificates of Deposit	<u>\$268,320</u>	<u>\$201,744</u>	<u>\$66,576</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of June 30, 2006, the Commission held investments in excess of FDIC insurance in the amount of \$51,573 which were collateralized by governmental securities having a fair market value of \$368,952 at June 30, 2006.



REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Huntington Bank, Reed City, MI	\$151,572
Fifth-Third Bank, Big Rapids, MI	42,445
Lake Osceola State Bank, Baldwin, MI	66,576
Chemical Bank, Big Rapids, MI	<u>7,727</u>
Total	<u>\$268,320</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets as of June 30, 2006 is as follows:

	Balance 7-1-05	Additions	Deletions	Balance 6-30-06
Land and improvements	\$ 44,618	\$ -	\$ -	\$ 44,618
Building and improvements	3,869,170	76,777	-	3,945,947
Equipment	306,052	121,838	-	427,890
Construction-in-progress	<u>139,229</u>	<u>87,480</u>	<u>(198,616)</u>	<u>28,093</u>
	4,359,069	<u>\$ 286,095</u>	<u>\$ (198,616)</u>	4,446,548
Accumulated depreciation	<u>(2,472,643)</u>	<u>\$ (159,171)</u>	<u>\$ -</u>	<u>(2,631,814)</u>
Net capital assets	<u>\$ 1,886,426</u>			<u>\$ 1,814,734</u>

Depreciation expense for the year was \$159,171.



REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended June 30, 2006 totaled \$815,175 of which \$524,845 or 64.4% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - PENSION PLAN

Plan Description

The Commission participates in the City of Reed City's pension plan. The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.



REED CITY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE G – PENSION PLAN (Continued)

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 18.18% to 31.36% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$198,134 for MERS was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's underfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 194,722	100%	\$ -
6/30/2005	193,417	100%	-
6/30/2006	198,134	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Under- funded (AAL) (UAAL) (b-a)	Funded Ratio (ab)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)c)
12/31/2003	2,321,349	3,538,040	(1,216,691)	66%	903,856	135%
12/31/2004	2,493,140	3,714,628	(1,221,488)	67%	906,426	135%
12/31/2005	2,685,041	3,846,839	(1,161,798)	70%	932,025	125%

**SUPPLEMENTAL
INFORMATION**



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash:					
111	Cash - unrestricted	\$ 133,081	\$ 84,387	\$ -	\$ 217,468
100	Total cash	133,081	84,387	-	217,468
Accounts and notes receivables:					
122	Accounts receivable - HUD other projects	-	-	403	403
126	Accounts receivable- tenants	1,523	-	-	1,523
126.1	Allowance for doubtful accounts - tenants	-	-	-	-
129	Accrued interest receivable	985	1,954	-	2,939
120	Total receivables, net of allowances for doubtful accounts	2,508	1,954	403	4,865
Other current assets:					
131	Investments - Unrestricted	192,569	75,751	-	268,320
142	Prepaid expenses and Other Assets	12,224	-	-	12,224
144	Interprogram due from	28,788	-	-	28,788
150	TOTAL CURRENT ASSETS	369,170	162,092	403	531,665

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:					
Fixed assets:					
161	Land	44,618	-	-	44,618
162	Buildings	2,287,625	-	-	2,287,625
163	Furniture, equipment & machinery - dwellings	50,409	-	59,133	109,542
164	Furniture, equipment & machinery - administration	232,871	22,772	62,705	318,348
165	Leasehold improvements	1,581,545	-	76,777	1,658,322
166	Accumulated depreciation	(2,573,916)	(22,772)	(35,126)	(2,631,814)
167	Construction in progress	-	-	28,093	28,093
160	Total fixed assets, net of accumulated depreciation	1,623,152	-	191,582	1,814,734
180	TOTAL NONCURRENT ASSETS	1,623,152	-	191,582	1,814,734
190	TOTAL ASSETS	\$ 1,992,322	\$ 162,092	\$ 191,985	\$ 2,346,399

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
		\$	\$	\$	\$
312	Accounts payable ≤ 90 days	11,480	648	-	12,128
321	Accrued wages / payroll taxes payable	2,928	495	-	3,423
322	Accrued compensated absences - current portion	6,030	1,077	-	7,107
333	Accounts payable - other government	12,399	-	-	12,399
341	Tenant security deposits	21,017	-	-	21,017
342	Deferred revenues	4,582	-	-	4,582
347	Interprogram due to	-	28,385	403	28,788
310	TOTAL CURRENT LIABILITIES	58,436	30,605	403	89,444
354	Accrued compensated absences - non current	4,586	131	-	4,717
350	TOTAL NONCURRENT LIABILITIES	4,586	131	-	4,717
300	TOTAL LIABILITIES	63,022	30,736	403	94,161

LIABILITIES AND NET ASSETS

LIABILITIES:

CURRENT LIABILITIES

- 312 Accounts payable ≤ 90 days
- 321 Accrued wages / payroll taxes payable
- 322 Accrued compensated absences - current portion
- 333 Accounts payable - other government
- 341 Tenant security deposits
- 342 Deferred revenues
- 347 Interprogram due to

310 TOTAL CURRENT LIABILITIES

354 Accrued compensated absences - non current

350 TOTAL NONCURRENT LIABILITIES

300 TOTAL LIABILITIES

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NET ASSETS					
508.1	Investment in capital assets, net of related debt	1,623,152	-	191,582	1,814,734
512.1	Unrestricted net assets	306,148	131,356	-	437,504
513	TOTAL NET ASSETS	1,929,300	131,356	191,582	2,252,238
600	TOTAL LIABILITIES AND NET ASSETS	\$ 1,992,322	\$ 162,092	\$ 191,985	\$ 2,346,399

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>					
703	Net tenant rental revenue	\$ 256,813	\$ -	\$ -	\$ 256,813
704	Tenant revenue - other	1,819	-	-	1,819
705	Total tenant revenue	258,632	-	-	258,632
706	HUD PHA grants	157,481	264,172	27,238	448,891
706.1	Capital grants	-	-	75,954	75,954
711	Investment income - unrestricted	10,288	5,329	-	15,617
714	Fraud recovery	-	359	-	359
715	Other revenue	15,722	-	-	15,722
700	TOTAL REVENUE	442,123	269,860	103,192	815,175
<u>EXPENSES</u>					
Administrative:					
911	Administrative salaries	61,686	24,380	15,648	101,714
912	Auditing fees	1,850	1,650	-	3,500
914	Compensated absences	4,366	(2,624)	-	1,742

See accompanying notes to financial statements



REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
915	Employee benefit contributions- administrative	61,571	3,821	1,296	66,688
916	Other operating- administrative	19,623	11,772	310	31,705
	Total Administrative	149,096	38,999	17,254	205,349
Tenant services:					
924	Tenant services - other	-	-	-	-
Utilities:					
931	Water	25,134	-	-	25,134
932	Electricity	43,245	-	-	43,245
933	Gas	55,190	-	-	55,190
	Total Utilities	123,569	-	-	123,569
Maintenance:					
941	Ordinary maintenance and operations - labor	70,225	-	-	70,225
942	Ordinary maintenance and operations - materials & other	21,201	-	8,795	29,996
943	Ordinary maintenance and operations - contract costs	15,192	-	1,188	16,380
945	Employee benefit contributions- ordinary maintenance	40,341	-	-	40,341
	Total Maintenance	146,959	-	9,983	156,942

See accompanying notes to financial statements

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Protective services:					
952	Protective services - other contract costs	6,416	-	-	6,416
General expenses:					
961	Insurance premiums	20,855	-	-	20,855
963	Payment in lieu of taxes	12,399	-	-	12,399
964	Bad Debt - Tenant Rents	203	-	-	203
	Total General Expenses	33,457	-	-	33,457
969	TOTAL OPERATING EXPENSES	459,497	38,999	27,237	525,733
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(17,374)	230,861	75,955	289,442
973	Housing assistance payments	-	216,405	-	216,405
974	Depreciation expense	136,290	-	22,882	159,172
900	TOTAL EXPENSES	595,787	255,404	50,119	901,310

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended June 30, 2006

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Other financing sources (uses)					
1001	Operating Transfers In	-	-	-	-
1002	Operating Transfers Out	-	-	-	-
1010	Total other financing sources (uses)	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (153,664)	\$ 14,456	\$ 53,073	\$ (86,135)
MEMO account information					
1103	Beginning equity	\$ 2,082,797	\$ 94,749	\$ 139,229	\$ 2,316,775
1104	Prior Period Adjustments, Equity Transfers	167	22,151	(720)	21,598
1113	Maximum Annual Contributions Commitment (Per ACC)	-	264,172	-	264,172
1115	Contingency Reserve, ACC Program Reserve	-	-	-	-
1116	Total Annual Contributions Available	-	-	-	-
1120	Unit months available	1,212	858	-	2,070
1121	Number of unit months leased	1,178	858	-	2,036

See accompanying notes to financial statements

REED CITY HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended June 30, 2006

REED CITY HOUSING COMMISSION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Reed City Housing Commission
Reed City, Michigan

We have audited the financial statements of the business-type activities of the Reed City Housing Commission as of and for the year ended June 30, 2006, which collectively comprise the Reed City Housing Commission's basic financial statements, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Reed City Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Reed City Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 12, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Commissioners
Reed City Housing Commission
Reed City, Michigan

Compliance

We have audited the compliance of Reed City Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2006. Reed City Housing Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Reed City Housing Commission's management. Our responsibility is to express an opinion on Reed City Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reed City Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reed City Housing Commission's compliance with those requirements.

In our opinion Reed City Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Reed City Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Reed City Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 12, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



REED CITY HOUSING COMMISSION

For the Year Ended June 30, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expensed as of 6-30-05</u>	<u>6-30-06 Federal Expenditures</u>
Operating Subsidy	14.850	<u>\$ 157,481</u>	<u>\$ -</u>	<u>\$ 157,481</u>
Section 8 Rental Voucher	14.871	<u>\$ 264,172</u>	<u>\$ -</u>	<u>\$ 264,172</u>
Capital Funding	14.872			
501-03		\$ 119,689	\$ 63,984	\$ 55,705
502-03		23,854	4,770	19,084
501-04		<u>138,614</u>	<u>-</u>	<u>28,403</u>
		<u>\$ 282,157</u>	<u>\$ 68,754</u>	<u>\$ 103,192</u>
Total Department of Housing and Urban Development				<u>\$ 524,845</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 524,845</u>

See accompanying notes to the schedule of expenditures of federal awards.



REED CITY HOUSING COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Reed City Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.



REED CITY HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Reed City Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Reed City Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Reed City Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Reed City Housing Commission.
7. The programs tested as major programs included:
 - A. Section Rental Vouchers – CFDA 14.871
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Reed City Housing Commission was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

1. There were no reportable conditions.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.